1.25.18

Tom: Good afternoon everyone. Welcome to our newest Sevens Report Alpha webinar. We're going to be doing things a little bit different today. For the first time we're actually going to have two guests. Because we're having two great guests, we're actually going to be forgoing my macro monologue because I think the topic we're covering today warrants a little bit of extra attention. With that said, I want to welcome on Robert Morier and Greg Stumm who are going to help us discuss frontier and emerging market debt investment, which obviously is a complement to our Sevens Report Alpha issue of about two weeks ago. Guys, thank you very much for joining me today.

As I said, we're going to get straight to it. We have a couple different goals. As I always do in every webinar I want to address the goals of what we're trying to accomplish here. From a 10,000 foot view, I think the first thing we want to make very clear for everyone listening is the differences between investing in emerging market debt and frontier market debt. We want to review the investment case for both distinct asset classes. As I was doing research for this issue and speaking to you guys in pre-calls, to me the most important thing to get my head around is the risk-reward setup for these asset classes. There is a little bit more risk, but there's also compelling reward, especially when you look at things like correlation and yields. I want to make sure we cover that very well. We're also going to go through what is the only frontier market income fund out there. We talked about it in the issue, but it's always nice to have somebody from that firm on to give us a deeper look into that offering. Then finally, to make it as applicable as we can to advisors, I want to ask you guys for the advisors that are allocating to emerging and frontier market debt, where are they taking the money from? Because I doubt they are taking it out of cash, but they're probably allocating it away from other asset classes. Where do the majority of people do that? That way we can make it very applicable to the folks listening on the call.

Robert, why don't I start with you? Can you go over, so everybody has a crystal-clear picture in their mind, the difference between emerging markets and frontier markets?

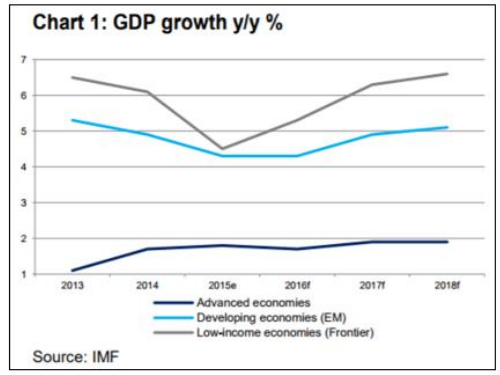
Robert: Absolutely, Tom. Thank you so much and thank you to the audience for joining today. It's a good question and it's a question that continues to develop as emerging and frontier economies grow and enhance into industrialized markets that are on par with their developed market counterparts. We're going to be speaking specifically to fixed income today. But I do think it's important to talk about emerging market debt and equity because they do have many overlapping traits. They also differ in their exposure to countries and risks, as you mentioned before.

Emerging Markets Vs. Frontier Markets…

The term Emerging Markets (EM) is widely used to describe an economy with a GDP per capita substantially below the advanced world. According to the World Bank's definition an emerging markets country has a GDP per capita of less than approximately USD 9,000. Typically countries are characterized by relatively high growth and positive demographics, but often lack western standards of income and administrative depth in their political and financial institutions. These pre-industrial economies often have a high dependence on agriculture and/or commodities.

Once a country passes a certain threshold in terms of GDP per capita and meets certain cultural norms in terms of best practice for promoting industrial capitalism, it is allowed to join a club of other highly industrialized economies (the Organization of Economic Cooperation and Development, OECD) and call itself advanced or a Developed Market (DM).

The term Frontier Markets (FM) refers to a subset of emerging market countries often characterized by usually relatively small economies, that are at an earlier stage of economic and financial market development.



The MSCI emerging markets index, which I think most of your audience today is familiar with, contains 27 countries with the five largest accounting for approx. 70% of market value. The three countries in Asia – China, South Korea, and Taiwan – alone comprise more than 50%. So there's a lot of concentration risk that comes from emerging market equities. Comparing equities to the emerging market fixed income universe, you're going to find a much more diverse universe of market opportunities, at least relative to how the benchmarks are defining it. We'll talk a little bit about the benchmarks and what's the best totem to look at for both emerging market debt and frontier market debt. In general, the JP Morgan Global Index, which includes dollar-denominated debt issued by emerging market countries, contains 67 countries today. The largest five countries only account for 40% of the market value, and the top three only about a quarter. So of those 67 countries in the emerging market fixed income benchmark, only about 19 overlap with the equity universe. So right in the beginning of your analysis, you're going to find that there's a correlation benefit between EM debt and EM equity just based on the size of the universe and the opportunities as it's presented to you.

We have a slide in the presentation that talks about the definition of emerging. Generally speaking, it's a very widely used definition of any economy with a GDP per capita substantially lower than the advanced world. There are various metrics that one can look at in order to narrow in to what that definition is, but one of the challenges a lot of investors have – both retail and institutional – is figuring out how best to define these. Frankly speaking, the definition is quite wide. So the way Global Evolution looks at it, we specialize in nothing but emerging market and sovereign debt. We generally look at two key factors; one is liquidity, which as you can imagine is important for all of us. It's great to get into a market, but the value is getting out. And then GDP per capita income, which is looking to the market to see if it is or has the best practices for promoting industrial capitalism. That's something that's very important particularly when you're thinking about an emerging market versus a developing market.

Now when you start to get into the frontier markets, frontier markets refers to a subset of emerging market countries that are often characterized by small economies. So countries that are very early stage of economic and financial market development. Again, what we're looking at are things such as liquidity and GDP per capita income. However, you have to be careful – and I think this is why it's so vitally important to think of active management in regard to EM and frontier – because the definition of EM and frontier can vary quite widely at times there can be interest opportunities to invest outside of the indices and take advantage of countries that may not fit the qualifications of an index, but from an active management perspective, have all the same attributes. So even though a country like Qatar or Singapore have some of the highest GDP per capita income in the world, the liquidity in those two markets can be quite thin. So we want to make sure we're investing and taking a holistic view of emerging versus frontier markets.

But what we're investing in in regard to this particular fund are frontier markets only. These are going to be that subset that I mentioned before. The definition of emerging markets per the standard indices, which are the JP Morgan MB index, which are the dollar-denominated index or commonly known as hard currency. Then the Global MB Index, which is the local currency index. Generally you will not find us investing in any emerging market countries, it will only be what we consider frontier markets. We really think that's the most exciting part of the market because these are countries that are going through rapid change and doing so in a dynamic way that we try to work into our portfolios in order to reflect what is ultimately the best risk-reward payoff for the countries in which we invest.

Tom: That raises an important point of this whole presentation that we're doing here. What we try to do in the issue and I'm sure what you try to do when you're talking to advisors out there, you want to overcome the gut reaction when you say, "Hey, let's invest in frontier market debt." Where people sort of look at you and say, "What?! We're taking on so much risk!" Well when you cut through the preconceived notions and you do the research, of course you're taking on enhanced risk, but everything in our business is judging risk versus return. These frontier market debt allocations can offer really attractive risk versus return. We all know the risks. Let's talk about the return now. Take me through the benefits of allocating to emerging market or frontier market debt.

Robert: It's a good question. You're right. You have to take risks into consideration. I think a lot of those risks tend to be preconceived and tend to be enabled by what we read in the paper every day. You just can't get away from negative coverage of a lot of these frontier and emerging markets. It's rare that we see a positive article on a country in any region considered EM or frontier. But we do think within frontier markets specifically, what you are essentially getting are dynamically improving macroeconomic fundamentals and political frameworks, as well as developing financial markets. This is a consequence of this maturation at the local level with these subsequent credit improvements. You're going to find that the yields you are receiving, out of frontier markets specifically, range anywhere between 9% and 12.5% on average. The fund that we manage specifically on behalf of American Beacon has an average yield to maturity of 10.6% as of yearend. This gives you very compelling double digit yields with a very diverse universe.

Another significant tailwind that you get from frontier markets is that they serve as an excellent buffer in times of market stress, like we saw in 2013 and 2015. It feels like everything is going very well right now so you may not be thinking immediately, at least the listeners on the call may not be thinking of immediate risks, but we do live and work in a cyclical environment. As you are thinking about correlations relative to other major asset classes, what we'll find as this presentation are the correlation benefits.

But the last thing I would say before we pivot to that point is that another very important to that argument is the idiosyncratic nature of each of these countries and the low cross country correlation reflected in individual countries across the frontier market universe. So not only do you have asset class diversification benefits from a correlation perspective, but you have inter-country diversification benefits. It's quite frankly difficult to come by particularly in the more developed emerging markets where beta tends to drive a lot of your returns. Where in this case, it's really the idiosyncratic dynamics of these markets. I think the overreaching point of all of this is you have to understand these markets very well. You have to be on the ground, you have to be visiting them regularly. You can't be a tourist in terms of investing in countries that do have a higher level of risk.

That being said, we think the risk is misperceived. There are truly some interesting opportunities within frontier markets, particularly from a local currency perspective relative to dollar-denominated debt. That's what you'll also find in this portfolio. About two-third of the allocation in the American Beacon Global Evolution Frontier Market Income Fund is allocated to local currency. We think that the diversification benefits of local currency is also something that the investor community is just starting to understand and we're doing our best to try to educate folks.

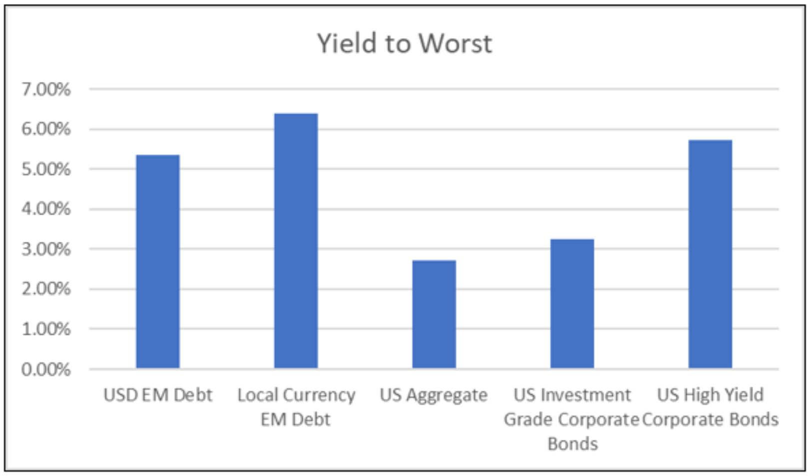
Tom: So you don't hedge out the currency risk? I'm going to make up an example. If you're going to buy Qatar bonds or something like that, in specific instances you will take on that currency as well, correct? Because you feel it can obviously help enhance the overall return of the position?

Robert: That is correct. We recognize that risk when we invest on a local basis. So we're taking that fx risk and we all know that currency is not an easy place in the market to make money. So we recognize that the fx component of our return stream will generally be flat to slightly negative, but we try to more than compensate that in the carry that we receive in the fund. You'll see double-digit carry as well as mid- to high-single-digit capital gains, which in our assessment is where we really believe most of the value is being driven in frontier markets. You have to recognize that there's an fx component involved and it may come back slightly negative, but the carry overwhelmingly gives you the benefit you are looking for.

Tom: That makes sense. I've moved on to a slide here that shows a bar chart taking a look at US dollar EM debt versus local currency EM debt and obviously the yields here are compelling. But there's something I want to point out. When I was looking through this I wanted to make sure this was very clear. Rob and Greg, feel free to elaborate on this. When you look at this bar chart you see US High Yield Corporate Bonds and you see it's a pretty high bar there. But we've got to remember we're talking about emerging and frontier market sovereign debt, which obviously is not comparable to corporate debt, especially junk debt from a default ratio. It's that added layer of safety. When I was going through this presentation, to me, you're looking through the fundamentals and the strength in the fundamentals and all I kept saying to myself was, from an investor standpoint, I don't care about the headlines of this country, the only thing I care about is whether they can make their coupon payment. We have to keep it focused that way when we're looking at it from a risk-reward standpoint. Do you agree?

Increased Yields…

- 2X, 3X, and 4X the yields of traditional fixed income investments.



* Frontier market debt didn't make the chart – It's above 8%!

Greg: I would agree 100%. I think there's some other points to bring up there as well. Typically, asset classes like high-yield bonds trade with each other. So there is some negative news about the US, the entire market is going to selloff. But if you go back to Rob's earlier comment about idiosyncratic risk, if there is a negative event in one country -- say Qatar or Ukraine or Venezuela -- that one country is not going to impact the other 70 countries in our investable universe. So that actually helps to mitigate the volatility and the risk in the portfolio relative to things like US high yield bonds that all trade together.

Robert: Just to add to that, Tom, you brought up a point about default rates. You'll actually find in the American Beacon Global Evolution Fund that we have never experienced a default in any of the countries in which we've owned in this particular portfolio. There may be restructurings and there may be what we may consider or investors may consider some type of post-crisis rebound that's going on. But we actually think it's at that point in the cycle, if you think about it from a restructuring perspective, where it's a fantastic opportunity to take a contrarian view. When everybody is running for the hills, we've taken the approach historically – which is one of the core tenets of our philosophy and how we approach these markets – it's time to get involved. In a more fragile frontier market, the crises are often more structural in nature. It's not coming out of a default situation like you find in corporate debt. The sources of crises tend to vary but usually involve excess fiscal spending often around elections or structural dislocations. It's those types of phoenix trades, literally rising from the ashes, that can get swept up under this negative preconceived notion.

As a final point on default rates, it's not apples to apples by any means, but we do tend to get looked at quite a bit relative US high yields and global high yields. If you just look at US high yield bonds, they've had an average annual default rate over the last 15 years or so of approx. 3.1%. That's relative to the JP Morgan MB index over the same time period of 1.8%. Significantly lower default rate relative to the high yield. And when you do see opportunities they do tend to come out of restructurings. That's where, in these smaller markets, you can really make a difference in terms of performance.

Greg: I wanted to bring up another point that I think ties in the last two charts we just looked at. One of the other questions we get a lot from financial advisors is not just EM versus frontier, it's debt versus equity. We draw the correlation very much of frontier markets today look a whole lot like emerging market debt markets looked 20 years ago. As being an outsourced research resource for a lot of advisors, we ask a lot of questions and say, "If we could go back 20 years ago and invest in EM, why wouldn't we invest in EM equity?" So in 2014 we went back and quantified that and tested that and what we found is that if you went back and invested in 1994 in EM debt you had very low participation rates which meant high idiosyncratic risk and very high yields. Actually, an investment in EM debt outperformed EM equities over the next 20 years. It was about at a third of the volatility. You had very high idiosyncratic risk, very high yields, and spreads tightened. It created a very positive client experience. That's a lot of what we're seeing in the frontier market today, especially in the debt versus equity side.

Low Correlations to Other Major Asset Classes...

	FRONTIER	JPM NEXGEM	EMBI GD	GBI-EM GD	CEMBI BD	MSCI EM	WTI	S&P500	UST 5-7 YR
FRONTIER	**100.00%**	55.41%	49.21%	28.43%	45.40%	39.53%	15.97%	22.84%	-13.27%
JPM NEXGEM		**100.00%**	81.93%	50.92%	72.52%	52.15%	22.67%	28.70%	-7.05%
EMBI-GD			**100.00%**	65.00%	83.22%	55.91%	23.86%	28.23%	12.19%
GBI-EM GD				**100.00%**	51.99%	69.44%	31.93%	36.29%	-3.61%
CEMBI BD					**100.00%**	54.93%	15.47%	16.01%	11.67%
MSCI EM						**100.00%**	29.52%	45.97%	-19.77%
WTI							**100.00%**	34.60%	-22.67%
S&P 500								**100.00%**	-38.29%
UST 5-7 YR									**100.00%**

Tom: That's an important general point to make. As we all know, a bond return is comprised of two things: the coupon and the movement in the bond. Correct me if I'm wrong, but as countries go from frontier status to emerging status I would imagine the spreads between those bonds and larger EM bonds or even developed market bonds close. So those bonds become more valuable as the financial condition of those frontier markets improve. Is that correct?

Robert: Absolutely correct. And you're seeing that now in real-time with hard currency spreads. Hard currency spreads have come in fairly significantly over the last 18 months or so. That premium has been had across a lot of the emerging market debt universe. However, with local currency, you still see some value in that spread. As a result, we personally think as managers who invest in both hard and local currency, that local currency is more attractive right now than hard currency in terms of thinking about how we want to allocate our own portfolio in that regard. It's a very good point, Tom.

Tom: Now, we're looking at the correlation matrix that you guys sent over. I may be potentially putting you on the spot because I've gotta ask it because I know I'm going to be asked. Let's say treasury yields are moving a bit higher now, how quickly that occurs we will find out, but how does a frontier market allocation – granted we've been in a 30-year bond bull market so we're only going to have pieces here – how can I expect frontier debt investments to hold up if we see lower treasuries and higher yields. I can look on the correlation matrix and the -13.27% correlation to the US catches my eye. What do you expect if we begin to see consistently higher yields in the US?

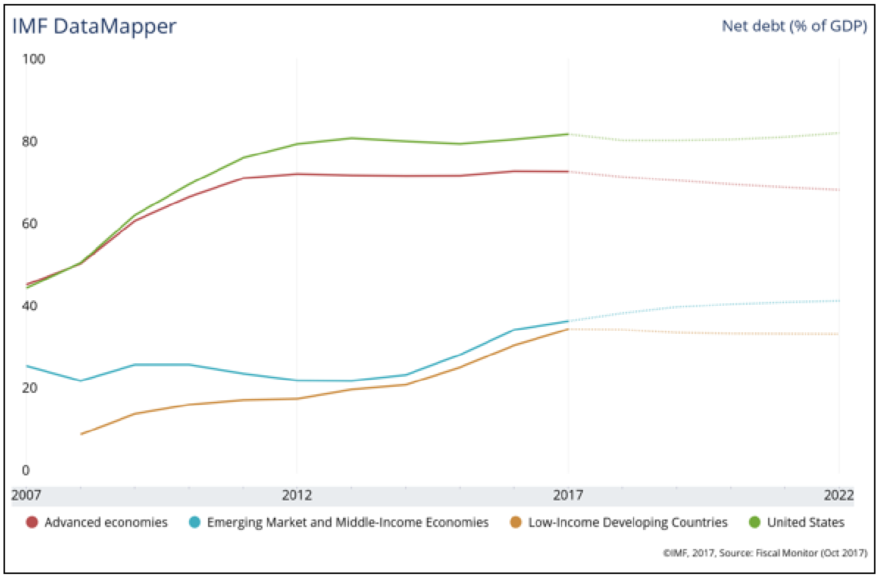
Robert: That's a great question. What we can expect, at least from our portfolio, is that we would be continuing to increase the allocation to local currency. Local currency historically has traded at least away from higher yields in the US markets. They actually have provided a correlation benefit relative to frontier markets and local currency specifically is one of those beneficiaries. Those thematic headwinds that you can run into when you see a depreciating dollar or rising interest rates in the US, generally speaking, local currency debt specifically in frontier markets tends to be buffered from that. It's one of the reasons we think local currency exposure in frontier markets is the purest form of local currency opportunities relative to some of the larger emerging markets. We think you are going to be relatively well protected in a frontier market portfolio that is actively allocating between hard currency and local currency.

That's one of the challenges I think investors tend to find, their more diversified emerging market bond managers tend to be heavily skewed toward hard currency, US dollar denominated or euro denominated debt. They are taking on that correlation risk, maybe they know it, maybe they don't. Whereas in our case, we try to reflect the issue in the universe. The frontier market universe is about $435 billion in total size and about two-third of the issuance is local currency; that's another reason why we tend to like that particular part of the market. Another reason, and the last point, is liquidity. We haven't talked a lot about liquidity. Liquidity in frontier market debt is different in the sense liquidity is primarily provided by international investors when it comes to those dollar denominated bonds. Unlike emerging markets, domestic investors when it comes to local currency denominated debt. So you're actually investing alongside local pension plans and other local investors in these markets, including larger organizations like the IMF and the World Bank. It's very important to understand what those particular organizations are thinking and doing. That's also part of our own research process. When we're analyzing the viability of countries on an individual basis.

Tom: I think that segues perfectly into viability. I thought the title of this slide was apropos because healthier fundamental than you think are I'm sure in the markets you are investing in. It's important to realize, the most important part of this whole thing, if you're going to go into these markets you have got to be in those countries. You cannot sit in an office in New York and just spread some money around some frontier market debt based on the yield and a couple statistics and say, "Gee, aren't I going to be successful?" You've got to travel to these countries to see what's going on. I imagine the countries that you guys are going to and investing in have these healthier fundamentals than you think because it's all about making that coupon payment. Regardless of what's happening in the headlines, as long as the fundamentals are there underlying that coupon payment, then these are good risk-reward investments.

Healthier Fundamentals Than You Think…

- Many developing countries have lower net debt-to-GDPs, economies growing at higher rates, and a faster-growing middle class.



Robert: I 100% agree. The commonly held assumption is the less developed the country, the more risky it is. It just doesn't live up to the scrutiny. We have found through our own research and there's clear empirical evidence between levels of indebtedness and creditworthiness. The average weighted sovereign debt-to-GDP ratio across developed markets was around 80% going into the financial crisis back in 2008, it's now well above 100% and showing very few signs of slowing down if you're just looking at what's going on here in the US. Whereas the average weighted sovereign debt-to- GDP ratio across emerging markets was around 40% going into the financial crisis, it's still there today. So those high levels of developed market indebtedness clearly helps explain why we see things like the continued EU debt crisis, at least back in 2011 and again in 2013, and why some spreads over German bonds were clearly held artificially low. Arguably, that's still happening today. I think it's a very good point. Fundamentals right now are very attractive within both EM and frontier. We would argue a bit more attractive on a frontier basis, and I'm going to sound like I'm starting to harp on it now but a lot of it has to do with valuations on a local currency basis.

Tom: I think that's a differentiator as you think about this specific fund that we recommended in Alpha. Let's get into a bit of the specifics of this fund. Normally when I have these webinars I'll usually have a couple alternatives because I don't want to make it seem like we're doing an infomercial, which we're not. But the bottom line is, you guys are the only ones who do this. We only have one fund up here, so let's talk about it. Let's talk about how you have structured this. From an advisor standpoint, how you guys generate what are significantly strong returns for a debt fund and how you really take controlled risk in these investments.

Robert: I'd be happy to talk about the fund and, Greg, please add in anything I might be missing. As we've talked about from the very beginning, there really aren't many peers in this particular universe of investments, dedicated frontier markets. There's a lot of reasons for that. It is a developing asset class and a lot of our peers tend to be significantly larger diversified emerging market debt managers that are diversifying across the universe of securities: Sovereigns, quasis, corporates, currency and so on. Being a sovereign debt specialist allows us a little more flexibility in terms of focusing our attention and our best ideas into what we feel are really the most attractive 30-35 countries in that frontier market universe that I described to you before.

What we focus in on specifically are those countries that we believe are going through this inflection point, that are moving towards developing market status. If someone is more equity focused, I tend to describe it as when you're looking at mid-cap manager – mid-cap US or mid-cap equity international – I always find that your best managers are the guys that manage small-cap as well. They understand what the graduation process looks like, they understand what it takes to move from a small-cap to a mid-cap, which is really much more common than mid-cap to large-cap. It's a very similar philosophical concept when you're moving from frontier to EM. You're looking for key attributes that allow you to be able to make that move.

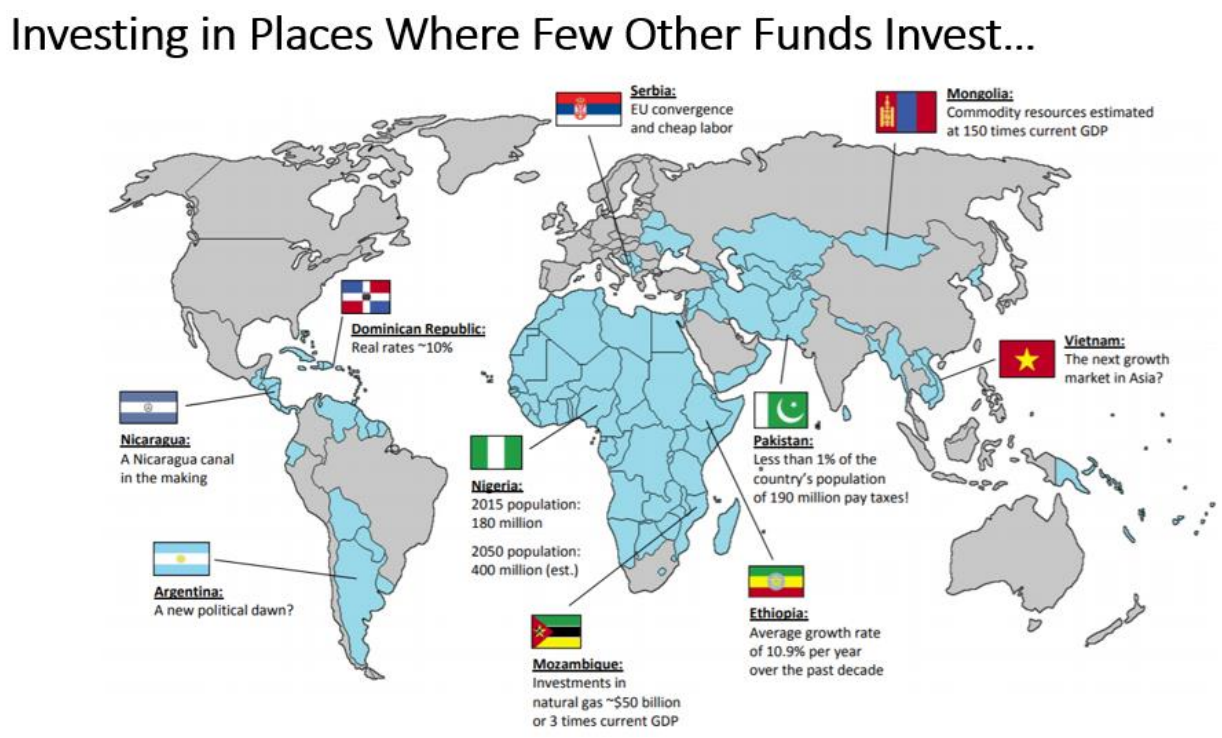
We talked about liquidity. They are liquid markets, but liquidity does come at a premium. So we have put some relatively strict capacity restraints on ourselves. In regard to not just this fund, but the strategy overall. We're managing about $3 billion in total assets across dedicated frontier. I told you before that the universe is about $435 billion. We really don't want to be more than 1% of that. So managing to strict capacity levels is something that is very important to us as a firm. This is not an asset gathering exercise. If it were, we would be managing much more and it would be a different conversation in terms of returns. I think I'm stealing Greg's thunder a little bit, but I think that's why American Beacon was attracted to us in the beginning.

That being said, I do think there's way to look at us comparatively. The American Beacon fund has an index that we do think makes sense because about 35% of the MB index would be considered frontier markets from our definition. So you do get some static allocation to that particular market, but it is very much an absolute return approach. Because you don't have that appropriate or adequate benchmark to look at yourself, we're really thinking about our return profile and absolute terms. Our goal on an annual basis is to deliver between 10% and 12% annualized over a full market cycle. We've been able to achieve that in this particular fund. We had a very successful 2017 and 16 as well. But we try to do it while keeping volatility relatively low. You'll see our volatility on a one year basis is 2.36%. Our duration is 3.28%, this is all as of the end of 2017. And that brings that yield to maturity to 10.6%.

So we're trying to reflect those countries that are going to be able to deliver that type of characteristic profile. We do it with 30-35 names, but risk management is also part of the discipline. So what we do in order to limit unnecessary risk in individual markets, is cap the total exposure of any one country in the portfolio to no more than 5%. So if you take a look at the prospectus or the fact sheet, you'll notice the largest position as of yearend is a shade under 5%; and that's Zambia. As you move down, everything is 1% to 1.5% and up to 4.5%. So concentrated in terms of the number of countries relative to the overall universe, but still being cognizant of individual country risk. That's how we effectively structure this particular fund.

We're quite active in terms of thinking of allocation as I mentioned several times now. To hard currency and local currency we're roughly 63% local and 37% hard currency. I would expect that local currency allocation to continue to increase of the next 12 months. We're quite constructive on frontier markets, it’s an inherit bias but we do want to be upfront with our clients in terms of what they can expect as we look ahead into 2018. We do think that this environment for frontier markets will continue to remain attractive. It’s a really interesting place to invest. I know sometimes it can look a little scary on paper when you’re reviewing the markets in which we’re focusing, but it gets to a point of what we’re really trying to accomplish.

This is kinda the overriding philosophy of Global Evolution: We look to make a positive impact in all of the markets in which we’re investing. This is called sustainable investing, some people call it ESG, some people call it impact investing. We truly believe that the process of responsibly investing in government debt, especially in these early stages in frontier markets, has an extraordinary positive impact on poverty alleviation. It’s more than just marketing speak. It’s actually quantitatively integrated into our investment process through our own valuation rating models. Then it’s qualitatively put to paper when we’re meeting with countries and country representatives and really looking to actively engage with the country policymakers who are very important to this process. It’s a unique strategy. It’s hard to find peers, but I think our clients and I would say from Greg’s perspective and I’m sure he’ll comment as well, I think our clients have been very appreciative of the fact that these are markets they may not necessarily have exposure to in a diversified fixed-income portfolio, or even a diversified EM debt portfolio. Because those managers are running up against size or they’re running up again risk tolerances or tracking error limits. We don’t think about tracking error. We don’t think about much more than that 5% max cap. I think it’s also a really unique way to get an absolute return strategy or fund into your client’s portfolio without arguably paying hedge-fund-like fees.



Tom: We’re almost out of time, but I want to touch on two things quickly. Number one, the slide here we just began to speak about it. Where are you guys seeing money flow out? So if I’m an advisor and I think this makes sense, where are you guys most typically seeing advisors pull funds from? Is it US equities? Is it emerging market equities? Could you give us some color there?

Global Evolution's "Impact Investing" Approach…

Debt investing alleviates poverty:
The process of responsibly investing in government debt especially in early stage emerging and frontier markets has an extraordinarily positive impact on poverty alleviation.

Raising productivity levels:
The huge historic leap forward in average living standards under industrial capitalism and the subsequent alleviation of absolute poverty in many countries has been achieved by making individuals more productive.

Building physical and human infrastructure:
Once physical security is established we believe electricity adds more to an individual's productivity than any other form of investment. Building other physical infrastructure such as roads, rail, ports, telecoms, water or health and education delivery also clearly have huge impacts on productivity.

Government investment is key to early stage industrial take off:
At early stages of development much of this investment is government sponsored and financed by their borrowing.

Capital market developments lower investment costs:
Developing local capital markets and attracting foreign portfolio flows reduces the costs of debt financing.

Getting the macro-policy mix right lowers investment costs:
Working with governments on getting the macro-policy mix right also assists in pulling down debt financing costs.

PRI Principles for Responsible Investment

THE WORLD BANK

TRANSPARENCY INTERNATIONAL

Economist Intelligence Unit

FFP

maplecroft

Greg: Rob, I'll take this one. Tom, the way we think about the investable universe, we actually break fixed income into two categories: You have cored fixed income -- think high-quality bonds, treasuries, investment grade corporates – and then you have alternative income (these are normally fixed income strategies that are anything but the high-quality fixed-income indices). What we recommend is that people really look across the spectrum of alternative income when making their investment decisions. So don't just look at high yields or floating rate or EM debt in the context of floating rate. Compare all those different things into which of those areas fulfills the need for my clients. The primary funding source that we are seeing for this strategy is from other alternative income sources. So high-yield bank loans, EM debt.

The secondary funding source we are seeing is EM equities. A lot of times what we see is advisors realize clients need exposure to EM in their portfolios for the growth prospects of it. If we could get clients to invest in it and close their eyes for the next 10 years, that would be an optimal solution. But of course clients can't close their eyes for a quarter to not look at their statements. A risk averse client, we've seen advisors use this as a workaround to get some EM exposure without taking some of the volatility of EM equity.

The one point I want to make, when you talk about two very good years for this fund in 2017 and 2016, I also want to point out 2015 was the worst year this fund has experienced, not only in the US but globally in the European strategy that Global Evolution runs. With the dollar strengthening and the selloff in commodity prices and the fund had a total return of -3%. I think that's really important to point out. It's great to focus on times when things are working really well, but when things aren't working well, having the strategy put off this much yield can still deliver something that is palatable for the client.

Tom: Yes, it gives you a nice cushion. Then finally, I hate to pressure on time, but I do want to address this real quick. We talked a lot about you guys having boots on the ground in these countries. Can you briefly give our listeners a bit of a rundown of some of the on-the-ground research you do. We sent some country notes out when we sent out the issue so they can see the type of in-depth research you're doing there. But just give us a little color on that.

Robert: Be happy to. You're absolutely right. We put out travel notes for our investors so they get a sense of what we're doing when we're visiting countries and getting a flavor of who we're meeting with, why we're meeting with them and what we're trying to get out of these visits. We do preliminary visits where we may not have an investment in that particular market yet but we want to get a better understanding of what's going on. Perhaps it was a recent election or there was one of those post-crisis opportunities that we needed to get more of an understanding of.

One recent example would be Mongolia, which is a position in the portfolio. Mongolia was a country that we visited last year and it was undertaking the first leg of that classic phoenix rebound trade. We still feel it has a lot further to run, but the economy Is very small and hugely reliant on commodity prices with a few large projects in copper, gold and coal, which are likely to transform the economy over the next decade. We're all very familiar with the collapse in commodity prices a few years ago and what that did to several countries in emerging and frontier markets in terms of their terms of trade. It revealed a huge structural vulnerability derived from broad-based fiscal excess. The government in this case has been spending future commodity revenue. What we wanted to better understand was this a new reform minded government that had been elected last year and an IMF finance program that was going to be combined together in the face of this rebound in commodity prices and whether it would be able to trigger a resumed investment in some of these mega-projects.. There was also a lot of talk about diversifying the economy away from natural resources, away from fossil fuels. This has been something that almost every commodity exporter has been telling investors. We wanted to make sure that was actually happening. Visiting the market, taking these things into consideration and then putting that into our research process was very helpful in putting that travel into use in the portfolio.

Tom: Great guys. That's all the time we've got. But really quickly, if people want to reach out to you, what the best way they can get ahold of you if they have any questions about the fund?

Greg: The best way is to go American Beacon, call our 800 number, you can email me directly greg.stumm@ambeacon.com. You can go to our website. You can also pull up the information on Morningstar under AGEYX. If you have any questions, please feel free to contact us directly.

Tom: OK guys, thank you very much. I think we did a good job myth busting some of the myths and kneejerk reactions people hear about frontier debt. Hopefully it will lead to some people checking it out and seeing if it makes sense for them and their clients and overall asset allocation. Thanks again, love to have you on again some time.